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C O N F I D E N T I A L SECTION 01 OF 02 ASTANA 001122

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DEPT FOR SCA/CEN (M. O'MARA)

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TAGS: ECON PREL EINV IQ KZ

SUBJECT: KAZAKHSTANIS TELL HOLBROOKE OF PLANS TO IMPROVE COMPETITIVENESS

REF: A. 06 ALMATY 1153

¶B. 06 ALMATY 256

¶C. 06 ASTANA 573

Classified By: Amb. John Ordway, reasons 1.4 (B) and (D).

¶1. (C) Summary: In a wide ranging conversation with the Ambassador and Richard Holbrooke, young Kazakhstani leaders discussed President Nazarbayev's efforts to empower Kazakhstani business to address the problems facing the country, including corruption. One part of the plan is a new state holding company designed in part to break the telecommunications monopoly that is strangling the country's competitiveness. Holbrooke also relayed to the Ambassador a warning from President Nazarbayev that the U.S. must not withdraw from Iraq before the situation is stabilized. End summary.

¶2. (SBU) The Ambassador hosted a lunch in honor of Amb. Richard Holbrooke on April 21 in Astana. Attendees included Nurlan Kapparov of KazInvest Bank and the Lancaster Group, Azamat Abdymomunov of the newly-created Samgau Holding Company, and Pol-Econ Chief (notetaker).

Nazarbayev Tasks Kazakhstani Business

¶3. (SBU) Kapparov reported that President Nazarbayev held a "groundbreaking discussion" on April 20 in Almaty with leading Kazakhstani businesses. According to Kapparov, during the two and a half hour meeting Nazarbayev told the Kazakhstani business elite that it was time for them to help "build the nation that had brought them up." Nazarbayev also said that it was time to address the problem of corruption that is hindering Kazakhstan's development. Prime Minister Masimov is to implement the new program of public-private partnership, which will involve identifying 30 national champions and helping them succeed. Kapparov described the initiative as an entirely new, "collaborative" approach on the part of the GOK, which used to simply lecture to business.

¶4. (C) "Masimov will be the best Prime Minister in Kazakhstan's history," Kapparov predicted, due to his impressive management skills and proactive approach. Holbrooke observed that while Masimov is clearly talented and dynamic, the incompetence of the Kazakhstani bureaucracy forces him to "micromanage" issues that would be handled well below his level in a more mature government. Kapparov concurred but predicted that the administrative reform project that Masimov has launched will improve the situation, and also give him grounds to change the current team of

ministers. Abdymomunov commented that the current cabinet is the "weakest" in recent memory.

¶15. (SBU) Kapparov said that he is working on a project to clean up the Khorgos customs post on the border with China, infamous for its corruption (Ref A). Kazakhstan had never done anything to construct the planned free trade area, he noted, while China had built an impressive complex of warehouses on its side. Kapparov said that he was in discussions with major international logistics firms to get them to take over freight handling at the border. Major multinational manufacturers such as Proctor and Gamble had expressed interest in sending goods from China to Moscow via Kazakhstan if rapid delivery times could be guaranteed.

New Holding Company to Improve Telecommunications

¶16. (C) Abdymomunov, who had been Deputy Minister of Education and Science until the previous week, explained that the Kazakhstani government had established the Samgau ("To Soar") Holding Company to manage and modernize the telecommunications sector. The organization is so new that it does not yet have a charter or operating capital. The original intent was for Samgau to take KazTelecom from Samruk Holding, but Samruk was strenuously resisting the change because KazTelecom is its most profitable firm by far. "It brings in more profit than KazMunayGas," according to Abdymomunov, due to its monopolistic status and the fact that many of KMG's oil fields are decades old and suffer from falling production.

¶17. (C) Abdymomunov said that if Samgau cannot wrest control of KazTelecom from Samruk, it will create a second national

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telecommunications firm to break the monopoly and spur competition. Samgau will also control the GOK's shares in KazTransCom, KaTelCo, KazTeleRadio, and KazPost. The GOK created the new holding company in order to address the telecommunications issues that are hindering Kazakhstan's competitiveness and diversification, Abdymomunov said. Deputy Head of the Presidential Administration Serik Burkitbayev will be chairman of the Samgau board of directors, an arrangement that Abdymomunov described as "possibly not quite legal" since the chair should be a member of government. (Comment: Bending the rules is nothing new for Burkitbayev, perhaps best known to the USG for his involvement in the Byelkamit scandal, Ref B. According to subsequent press reports Burkitbayev is also angling to have KazAeroNavigatsiya folded into Samgau. End comment.)

Nazarbayev to Holbrooke: "U.S. Must Stay in Iraq"

¶18. (C) In a one-on-one conversation following the lunch, Holbrooke told the Ambassador that during their meeting in Almaty President Nazarbayev had stressed the importance of the U.S. remaining in Iraq. Nazarbayev is convinced that a premature U.S. withdrawal would lead to widespread civil war in Iraq and chaos throughout the region, according to Holbrooke. (Note: Nazarbayev made the same point to the Ambassador in November; Ref C.)
ORDWAY